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June 20, 2006

AGENDA ITEM 9 (REVISED)

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Approval of 2007 Health Maintenance Organization Plan Benefits and Rates
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends the Board approve 2007 HMO benefits and rates.
- IV. ANALYSIS:**

Background

Initial 2007 rates from the three Health Maintenance Organizations (HMOs) in the CalPERS Health Program – Blue Shield of California, Kaiser Permanente and Western Health Advantage – were submitted in April 2006. CalPERS staff has conducted a thorough analysis of each rate proposal and met numerous times with each HMO to review their rate development methodology and underwriting documentation. We have also used the resource of our data warehouse to validate and challenge each plan's utilization experience and projected trends.

CalPERS employed Mercer Human Resource Consulting to provide independent health actuarial consultation and to conduct an independent assessment of each HMO's rate proposal, provide input on market trends and program management issues, and assist staff in rate negotiations.

Recommended 2007 HMO Rates

The recommended 2007 HMO rates, including regional pricing for contracting agency members, are presented in Attachment 1. Regional pricing does not apply to contracting agency members enrolled in Medicare plans.

HMO rate changes for 2007 average an 11.60 percent increase for the Basic plans and a 24.98 percent increase for Medicare plans if no benefit design changes are approved by the Board. Attachment 2 reflects the proposed benefit design changes for the Basic plan and the corresponding rate reductions, if approved by the Board. Attachment 3 compares 2007 Medicare rates using RDS versus PDP formulas.

V. STRATEGIC PLAN:

This item supports CalPERS Strategic Plan, Goal III: "Design, develop, and administer benefit programs and business processes that are innovative, effective, efficient, and valued by our members, employers and stakeholders."

VI. RESULTS/COSTS:

The CalPERS costs associated with this item are included in the annual budget of the Office of Health Policy and Plan Administration.

Staff is available to respond to any questions.

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